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Accounting, Business Methods, Investments, and the Exchanges

The Fundamentals of Accounting. By WILLIAM MORSE COLE. (Boston: Houghton Mifflin Company. 1921. Pp. xi, 434. $3.50.)

Instructors and students of accounting, who are interested in more than the mechanics of the subject, will be delighted in the publication of this new and comprehensive text. The method of the book, as stated by the author, is philosophical. In some ways the subject is treated as in *Philosophy of Accounts* by the late Professor Sprague. Inasmuch as the book deals entirely with fundamentals very little new material is presented, but old material is presented in a new and pedagogically sound way. In contrast with the method used in his previous volume, entitled *Accounts: Their Construction and Interpretation,* the author has chosen the balance-sheet method of presenting the subject. By use of "ownership-claim" to represent both external and proprietary liabilities, he works out clearly all types of changes that take place in the balance sheet. In the second chapter the author explains the theory of double entry and shows its relation to these changes. Debit and credit are discussed in the third and fourth chapters. At this stage the "account" is introduced, and the author shows the application of the principles of double entry to accounts and to the balance sheet, but not to the books of original entry. The method used in presenting the theory of debit and credit is unique, and enables the student to understand the philosophy or real principles involved instead of leaving him satisfied with mechanical rules only. Yet working rules are not omitted, and the student may obtain thorough practice in applying those rules to concrete transactions.

In chapter five the simple statement of profit and loss is introduced to explain the changes that have taken place in the balance sheet. In other words, the income statement is presented only when the need of additional statistical information is necessary to explain the changes in proprietorship. The next two chapters discuss the operating statement, first, under cost-accounting methods, and, second, under inventory methods. The author perhaps over-emphasizes the momentary accuracy of a balance sheet, for most accountants believe that in case of manufacturing or mercantile businesses a balance sheet can at best be only an approximation to facts. Therefore, the distinction must not be too finely drawn that a balance sheet reflects the true financial condition of a business as of a given moment of time, but that it fails to do so immediately after additional transactions have taken place. The author bases his presentation of the principles of accounting on the premise "that expenditures are not made ordinarily in vain, but for a return, and that therefore the assets given up in one form are received back in another" through conversion by business processes. This is true not only in manufacturing, but also in all business activities. By such an approach the fundamental principles of accounting are presented through what is ordinarily termed the cost-accounting method.

The almost complete elimination of nominal accounts has dispensed with one of the most difficult problems that confronts the average student or instructor in accounting. It is to be regretted, however, that the author has continued the mixed merchandise account, which accountants generally have ceased to use. A writer on accounting may either *follow* current practice, or he may advocate principles in anticipation of future practice; in the treatment of notes receivable discounted and of the allowance for depreciation the author is in advance of much current practice.

Not until chapter nine is the mechanics of bookkeeping introduced. There are three main principles in bookkeeping, (a) the distinction between debit and credit, (b) the principle of the labor-saving device, and (c) the distinction between charges to capital and charges against revenue. The principles of debit and credit have been presented in the preceding chapters, but in chapter nine the books of original entry are first introduced. In the chapters immediately following, the author introduces the use of the trial balance, labor-saving devices in books of original entry, labor-saving devices in ledgers, and highly developed or specialized labor-saving devices, such as cash discount columns, contra entries, combined books, tabular ledgers, and the voucher system. The technique of closing the books is presented in chapter fourteen. The journal entry method makes possible either the conversion of operating accounts into nominal accounts, or the conversion of operating accounts into real accounts. Both methods are illustrated. Whether

the journal entry method or the direct cross entry method in the ledger is used may depend, as the author states, less on a matter of principle than of taste or adaptation to circumstances; however, the author should, we believe, take some definite stand as to the method to be used. Auditors have experienced very great difficulty in tracing fraud if cross entries have been used in the ledger; for this reason most public accountants and many instructors in accounting have taken a definite stand in favor of the journal entry method of closing. In chapter fifteen the author discusses other mechanical devices, giving particular attention to such auxiliary records as petty cash, the bill and note books, accounts receivable and payable books, ticklers, and other special statistical records.

Some peculiarities of corporation accounts are presented in chapter sixteen. Among the topics discussed are the nature of capital accounts, the distinction between the issue and the sale of capital stock, stock issued and reacquired by the treasury, and capital stock of no par value. The author seems to take the stand that treasury stock should be shown in the balance sheet as an asset. This is not accepted as the best practice; it is permissible when the item of treasury stock is substantially small in amount and is held as a temporary investment only. As a general rule, all stock in the possession of the corporation which issues it should be deducted from the liabilities side of the balance sheet so as to set forth the number of shares in the undertaking which have really been issued to and remain in the hands of the public as of the date of the balance sheet. Again, it would seem that in the discussion of no par value stock the term "invested capital" is not so applicable as "capital stock of no par value," or similar title, because the former term has come to have a very definite meaning for taxation purposes. Neither should it be said that surplus will always represent the excess of net assets above such investment, for the reason that the shares are usually given a nominal value and in actual practice the company often shows a large capital surplus paid in at the time of the stock issue.

In chapter seventeen, entitled "Where do profits begin," cost is defined, for acounting purposes, as "outlay" and as "the disappearance of value in the acquisition of other value." It would appear, therefore, that the author contradicts himself when in chapter twenty-two he endeavors to prove that interest on investment is, for accounting purposes, a part of cost. In this volume, however, the author does state that the real necessity for including in cost the interest on investment is not a financial reason, but in order that comparative costs or statistical figures may be obtained as between different departments or between different plants within a composite organization.

In the remaining chapters the author discusses the problems of de-

preciation and maintenance, showing the necessity of usually considering depreciation and maintenance together, the disposition of profits, the interpretation of financial statements, in which ultimate and immediate solvency is differentiated, and the effect of interest on values. The balance sheets presented in chapter twenty are particularly clear, and business organizations would do well to adopt the form of financial statements here outlined. The four short appendices discuss drafts, simple interest and bank discount, compound interest and annuities, and single entry.

The book contains a full table of contents, and is well indexed. The text is artistically displayed and is easy to read; each paragraph in the entire volume is given a bold-face heading. At the conclusion of each chapter are problems and exercises which will further assist in its use as a text. An answer book has been prepared which will also be an aid to the instructor. The style is pleasing, and the work possesses a literary finish not ordinarily found in a text on accounting.

J. HUGH JACKSON.

With Price, Waterhouse & Co., New York.

Investment Analysis. By WALTER EDWARDS LARGERQUIST. (New York: The Macmillan Company. 1921. Pp. xviii, 772.)

In 672 pages of text, 100 pages of appendices, and 18 pages of index, the author has arranged a comprehensive survey of the subject from the point of view of the conservative investor. The volume is divided into four books.

The first book discusses the general considerations pertaining to all investments, such as: the criteria for analyzing the investor and the investment; the terminology and classes of bonds and mortgages; the structure and analysis of a typical corporation report; the essential elements in mortgage securing bonds; the rules and customs regarding the underwriting, issuance, and transfer of securities; net yields and the use of bond tables; a discussion of bank reserves and interest rates as they affect the prices of bonds cyclically; the regulations of blue-sky legislation and the problem of taxation and tax exemption of bonds.

The second book describes all important forms of corporation bonds topically as follows: railroad, railroad equipment, street and interurban railways, electric light and power, gas, hydro-electric power, water, telephone and telegraph, Great Lakes steamship, industrial, and timber bonds. A similar topical arrangement in book three discusses real estate mortgages, real estate bonds, Federal Land Bank farm-loan bonds, irrigation securities, and drainage and levee district bonds. Book four treats of civil loans including those to the United States and